

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2006 AND 2005

**MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)**

CONTENTS

| | <u>Page</u> |
|---|-------------|
| OFFICIALS | 1 |
| INDEPENDENT AUDITOR'S REPORT | 2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 |
| FINANCIAL STATEMENTS: | |
| Balance Sheets | 5 |
| Statements of Revenues, Expenses and Changes in Net Assets | 6 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements | 9 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Budgetary Comparison Schedule | 22 |
| ACCOMPANYING INFORMATION: | |
| Schedules Supporting Balance Sheets: | |
| Patient receivables | 23 |
| Inventory/Prepaid expense | 24 |
| Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets: | |
| Patient service revenue | 25 |
| Revenue and related adjustments | 26 |
| Nursing service expenses | 27 |
| Other professional service expenses | 29 |
| General service expenses | 33 |
| Fiscal and administrative service expenses | 34 |
| Comparative Statistics | 36 |
| Comparative Balance Sheets | 37 |
| Comparative Statements of Revenues and Expenses | 38 |
| COMMENTS AND RECOMMENDATIONS: | |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 39 |
| Schedule of Findings | 41 |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Officials
June 30, 2006

| <u>Board of Trustees:</u> | <u>Address</u> | <u>Term Expires</u> |
|--------------------------------|------------------|---------------------|
| Julie Fisher, Chairman | Oskaloosa, Iowa | 2006 |
| Becky Siefering, Vice-Chairman | Oskaloosa, Iowa | 2006 |
| Mike Grim, Secretary | Eddyville, Iowa | 2008 |
| Paul Swenson, Treasurer | Oskaloosa, Iowa | 2008 |
| Lawrence Everett | New Sharon, Iowa | 2010 |
| Jon Sullivan | Oskaloosa, Iowa | 2010 |
| Mary Sexton | Rose Hill, Iowa | 2008 |

Chief Executive Officer:

| | |
|-----------------|-----------------|
| Jay Christensen | Oskaloosa, Iowa |
|-----------------|-----------------|

Chief Financial Officer:

| | |
|-----------------|-----------------|
| Joe Hohenberger | Oskaloosa, Iowa |
|-----------------|-----------------|

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)
Oskaloosa, Iowa

We have audited the accompanying balance sheets of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of June 30, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2006 on our consideration of Mahaska County Hospital's (d/b/a Mahaska Health Partnership) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

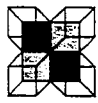
To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 22 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 23 through 38) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewald, Bell, Ryhan & Co. P.C.

Atlantic, Iowa
October 12, 2006



**Mahaska Health Partnership
Management's Discussion and Analysis**

Our discussion and analysis of Mahaska Health Partnership (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$986,949 or 4.5 percent increase in 2006 and a \$536,004 or 2.5 percent increase in 2005.

The Hospital reported operating losses in 2006 (\$1,058,165) and 2005 (\$1,687,121). Losses in 2006 decreased by \$628,956 or 37.3 percent from the loss reported in 2005. Operating losses in 2005 increased from 2004 by \$159,758 or 10.5 percent.

Nonoperating revenues decreased by \$178,011 or 8.0 percent in 2006 compared to 2005. Nonoperating revenues increased in 2005 by \$435,953 or 24.4 percent compared to 2004.

Excess revenues over expenses increased by \$450,945 or 84.1% in 2006 compared to 2005, while excess revenues over expenses increased by \$276,195 or 106.3% in 2005 compared to 2004.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased in each of the past two years by \$986,949 (4.5 percent) in 2006 and \$536,004 (2.5 percent) in 2005, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|----------------------|
| Assets: | | | |
| Current assets | \$ 11,350,651 | \$ 10,970,976 | \$ 10,498,359 |
| Capital assets, net | 22,469,617 | 23,289,497 | 24,289,272 |
| Other noncurrent assets | <u>2,678,107</u> | <u>2,490,721</u> | <u>2,434,868</u> |
| Total assets | <u>\$ 36,498,375</u> | <u>\$ 36,751,194</u> | <u>\$ 37,222,499</u> |
| Liabilities: | | | |
| Long-term debt outstanding | \$ 8,746,717 | \$ 9,801,879 | \$ 10,887,057 |
| Other current and noncurrent Liabilities | <u>4,905,647</u> | <u>5,090,253</u> | <u>5,012,384</u> |
| Total liabilities | <u>\$ 13,652,364</u> | <u>\$ 14,892,132</u> | <u>\$ 15,899,441</u> |
| Net Assets: | | | |
| Invested in capital assets, net of Related debt | \$ 12,003,135 | \$ 11,765,459 | \$ 11,650,711 |
| Restricted expendable net assets | 917,101 | 875,000 | 875,000 |
| Restricted nonexpendable permanent Endowments | 6,000 | 6,000 | 6,000 |
| Unrestricted | <u>9,919,775</u> | <u>9,212,603</u> | <u>8,791,347</u> |
| Total net assets | <u>\$ 22,846,011</u> | <u>\$ 21,859,062</u> | <u>\$ 21,323,058</u> |

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2006, the Hospital's net assets increased by \$986,949 or 4.5 percent, as shown in Table 2. This increase is made up of very different components. This represents an increase of 84.1 percent compared with the increase in net assets for 2005 of \$536,004.

Table 2: Operating Results and Changes in Net Assets

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|----------------------|----------------------|----------------------|
| Operating Revenues: | | | |
| Net patient service revenues | \$ 24,309,899 | \$ 23,343,985 | \$ 21,322,953 |
| Other operating revenues | <u>233,201</u> | <u>270,723</u> | <u>287,386</u> |
| Total operating revenues | 24,543,100 | 23,614,708 | 21,610,339 |
| Operating Expenses: | | | |
| Salaries and benefits | 15,652,837 | 15,414,601 | 13,506,575 |
| Professional fees | 998,485 | 1,064,333 | 1,448,527 |
| Other operating expenses | 6,648,346 | 6,626,837 | 6,273,381 |
| Depreciation and amortization | <u>2,301,597</u> | <u>2,196,058</u> | <u>1,909,219</u> |
| Total operating expenses | <u>25,601,265</u> | <u>25,301,829</u> | <u>23,137,702</u> |
| Operating loss | (1,058,165) | (1,687,121) | (1,527,363) |
| Nonoperating Revenues and Expenses: | | | |
| Property taxes | 1,789,140 | 1,723,297 | 1,670,055 |
| Investment income | 155,824 | 75,495 | 70,476 |
| Noncapital grants and contributions | 355,159 | 663,595 | 321,432 |
| Other nonoperating revenues and Expenses, net | <u>(255,009)</u> | <u>(239,262)</u> | <u>(274,791)</u> |
| Total nonoperating revenues (Expenses) | <u>2,045,114</u> | <u>2,223,125</u> | <u>1,787,172</u> |
| Excess of Revenues over Expenses and Increase in Net Assets | 986,949 | 536,004 | 259,809 |
| Net Assets Beginning of Year | <u>21,859,062</u> | <u>21,323,058</u> | <u>21,063,249</u> |
| Net Assets End of Year | <u>\$ 22,846,011</u> | <u>\$ 21,859,062</u> | <u>\$ 21,323,058</u> |

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2006 was prepared on a modified accrual basis. The original budget of expenditures was approved at the meeting of February 28, 2005. Actual expenditures were lower than budget.

OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. Losses in 2006 decreased by \$628,956 or 37.3 percent lower than the loss reported in 2005. Operating losses in 2005 increased by \$159,758 or 10.5 percent higher than the loss reported in 2004.

The primary component of the decreased operating loss is:

As of November 1, 2005, Mahaska Health Partnership was designated a Critical Access Hospital. This change resulted in a significant increase in Medicare reimbursement. This then served to reduce our Contractual Adjustments. This year's adjustments as a percentage of patient services revenue was 35.9 while 2005 was 37.7.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings and contributions. While investment income went from \$75,495 in 2005 to \$155,824 in 2006, a decrease in contributions of \$308,436 was noted. The decrease in contributions was the result of the Capital Campaign for Mahaska Health West coming to an end.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A to the financial statements. Capital and operating grants received in 2006 did not change materially from capital and operating grants received in 2005.

THE HOSPITAL'S CASH FLOWS

The Hospital's cash flows changed due to the increase of third-party payments that were the direct result of the Critical Access Hospital designation as of November 1, 2005.

Mahaska Health Partnership
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2006, the Hospital had \$22.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. The Hospital spent \$1.5 million for the purchase of new equipment and construction costs in 2006, and \$1.2 million in 2005.

Debt:

At year-end, the Hospital had \$10.5 million in revenue notes and bonds, and promissory notes outstanding.

OTHER ECONOMIC FACTORS

The hospital is dependent upon payments from Medicare, Medicaid and other third-party payers. Each of these payers has continued to put pressure on reimbursement levels paid to the hospital. Medicare represents nearly 46.9% of hospital revenues and presently reimburses the hospital less than 52.9% of billed charges. Future cost increases will be covered by increased volume from new physicians recruited in the past two years plus the designation as a Critical Access Hospital.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administrator, at Mahaska Health Partnership, Oskaloosa, Iowa 52577.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Balance Sheets
June 30,

ASSETS

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 2,476,109 | \$ 1,783,416 |
| Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,078,439 in 2006, \$2,080,000 in 2005) | 4,439,500 | 4,843,304 |
| Other receivables | 76,724 | 217,897 |
| Inventory | 937,770 | 878,658 |
| Prepaid expense | 129,047 | 126,380 |
| Estimated third-party payor settlements | 88,000 | 17,000 |
| Succeeding year property tax receivable | 1,750,000 | 1,675,000 |
| Internally designated assets | <u>1,453,501</u> | <u>1,429,321</u> |
| Total current assets | 11,350,651 | 10,970,976 |
| Designated and Restricted Assets: | | |
| Internally designated assets | 3,121,123 | 2,824,943 |
| Restricted assets | <u>923,101</u> | <u>881,000</u> |
| | 4,044,224 | 3,705,943 |
| Less amounts required to meet current liabilities | <u>1,453,501</u> | <u>1,429,321</u> |
| | 2,590,723 | 2,276,622 |
| Capital Assets: | | |
| Depreciable capital assets | 22,120,351 | 22,337,332 |
| Non-depreciable capital assets | <u>349,266</u> | <u>952,165</u> |
| | 22,469,617 | 23,289,497 |
| Other Assets: | | |
| Notes receivable | 37,500 | 162,238 |
| Other | <u>49,884</u> | <u>51,861</u> |
| | 87,384 | 214,099 |
| Total assets | <u>\$ 36,498,375</u> | <u>\$ 36,751,194</u> |

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 1,186,781 | \$ 1,121,507 |
| Accounts payable | 704,343 | 634,006 |
| Accrued employee compensation | 887,549 | 1,287,500 |
| Accrued payroll taxes and withholding | 79,746 | 53,974 |
| Accrued health insurance claims | 120,576 | 135,098 |
| Accrued interest payable | 176,652 | 183,168 |
| Deferred revenue for succeeding year property tax receivable | <u>1,750,000</u> | <u>1,675,000</u> |
| Total current liabilities | <u>4,905,647</u> | <u>5,090,253</u> |
| Long-Term Debt: | | |
| Revenue bonds and notes payable, less unamortized discount, debt issue costs, and current maturities | <u>8,746,717</u> | <u>9,801,879</u> |
| Total liabilities | <u>13,652,364</u> | <u>14,892,132</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 12,003,135 | 11,765,459 |
| Restricted - expendable | 917,101 | 875,000 |
| Non-expendable permanent endowments | 6,000 | 6,000 |
| Unrestricted | <u>9,919,775</u> | <u>9,212,603</u> |
| Total net assets | <u>22,846,011</u> | <u>21,859,062</u> |
| Total liabilities and net assets | <u>\$ 36,498,375</u> | <u>\$ 36,751,194</u> |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Revenue: | | |
| Net patient service revenue | \$ 24,309,899 | \$ 23,343,985 |
| Other revenue | <u>233,201</u> | <u>270,723</u> |
| Total revenue | 24,543,100 | 23,614,708 |
| Expenses: | | |
| Nursing service | 5,942,010 | 6,089,313 |
| Other professional service | 11,365,440 | 11,552,909 |
| General service | 1,995,589 | 1,767,633 |
| Fiscal and administrative service | 3,996,629 | 3,695,916 |
| Provision for depreciation | 2,284,547 | 2,179,525 |
| Amortization | <u>17,050</u> | <u>16,533</u> |
| Total expenses | <u>25,601,265</u> | <u>25,301,829</u> |
| Operating Loss | (1,058,165) | (1,687,121) |
| Non-Operating Revenue (Expenses): | | |
| County taxes | 1,789,140 | 1,723,297 |
| County subsidy - New Directions | 86,738 | 76,618 |
| Investment income | 155,824 | 75,495 |
| Noncapital grants and contributions | 298,266 | 663,595 |
| Rental income | 284,482 | 284,699 |
| Interest expense | (570,036) | (600,579) |
| Gain on disposal of assets | <u>700</u> | <u>--</u> |
| Non-operating revenue, net | <u>2,045,114</u> | <u>2,223,125</u> |
| Excess of Revenues Over Expenses and Increase in Net Assets | 986,949 | 536,004 |
| Net Assets Beginning of Year | <u>21,859,062</u> | <u>21,323,058</u> |
| Net Assets End of Year | <u>\$ 22,846,011</u> | <u>\$ 21,859,062</u> |

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Cash Flows
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 24,783,876 | \$ 23,705,210 |
| Cash paid to suppliers | (10,291,408) | (10,581,931) |
| Cash paid to employees | (13,236,750) | (12,366,688) |
| Other revenue | <u>233,201</u> | <u>270,723</u> |
| Net cash provided by operating activities | 1,488,919 | 1,027,314 |
| Cash flows from non-capital financing activities: | | |
| County tax revenue and subsidy | 1,875,878 | 1,799,915 |
| Noncapital grants and contributions | <u>298,266</u> | <u>663,595</u> |
| Net cash provided by non-capital financing activities | 2,174,144 | 2,463,510 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | (1,491,582) | (1,285,211) |
| Proceeds on debt issuance | 156,700 | -- |
| Principal paid on long-term debt | (1,214,256) | (1,114,523) |
| Change in other assets | 1,977 | 11,683 |
| Interest paid | (525,934) | (548,419) |
| Proceeds on sale of assets | <u>700</u> | <u>--</u> |
| Net cash used in capital and related financing activities | (3,072,395) | (2,936,470) |
| Cash flows from investing activities: | | |
| Investment income | 155,824 | 75,495 |
| Change in designated and restricted assets | (70,719) | (17,369) |
| Loans granted for physician recruitment | -- | (20,000) |
| Rental income | <u>284,482</u> | <u>284,699</u> |
| Net cash provided by investing activities | <u>369,587</u> | <u>322,825</u> |
| Net increase in cash and cash equivalents | 960,255 | 877,179 |
| Cash and cash equivalents at beginning of year | <u>2,086,425</u> | <u>1,209,246</u> |
| Cash and cash equivalents at end of year | <u>\$ 3,046,680</u> | <u>\$ 2,086,425</u> |
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash in current assets | \$ 2,476,109 | \$ 1,783,416 |
| Cash and cash equivalents in designated and restricted assets | <u>570,571</u> | <u>303,009</u> |
| Total cash and cash equivalents | <u>\$ 3,046,680</u> | <u>\$ 2,086,425</u> |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Statements of Cash Flows - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$(1,058,165) | \$(1,687,121) |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Provision for depreciation | 2,284,547 | 2,179,525 |
| Provision for bad debts | 1,193,458 | 1,153,286 |
| Amortization | 141,788 | 110,850 |
| Changes in assets and liabilities | | |
| Accounts receivable | (648,481) | (1,006,061) |
| Inventory | (59,112) | 85,175 |
| Prepaid expense | (2,667) | (90,322) |
| Accounts payable, trade | 97,252 | (99,276) |
| Accrued employee compensation | (399,951) | 190,632 |
| Accrued payroll taxes and withholding | 25,772 | (18,472) |
| Accrued health insurance claims | (14,522) | (4,902) |
| Estimated third-party payor settlements | <u>(71,000)</u> | <u>214,000</u> |
| Total adjustments | <u>2,547,084</u> | <u>2,714,435</u> |
| Net cash provided by operating activities | <u>\$ 1,488,919</u> | <u>\$ 1,027,314</u> |

The accompanying notes are an integral part of these statements.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has no component units.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of five years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized in 2006 or 2005.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 360 hours. Any excess over 360 hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note H. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2004. The Medicaid cost reports have been audited through June 30, 2003. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

| | <u>2006</u> | <u>2005</u> |
|----------------|-------------------|-------------------|
| Long-term debt | \$ <u>917,101</u> | \$ <u>875,000</u> |

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|--------------|--------------|
| Purchase of property and equipment | \$ <u>--</u> | \$ <u>--</u> |

Unless the contributor provides specific instructions, law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees has chosen to spend the investment income and appreciation on the endowment fund while maintaining adequate amounts of earnings to maintain the principal original value. Any decreases in principal value will be replaced by retaining income in future years to return the principal to its original value.

Restricted nonexpendable net assets as of June 30, 2006 and 2005 represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|-----------------|-----------------|
| Purchase of capital assets | \$ <u>6,000</u> | \$ <u>6,000</u> |

NOTE D - DESIGNATED NET ASSETS

Of the \$9,919,775 (\$9,212,603 as of June 30, 2005) of unrestricted net assets as of June 30, 2006, \$3,121,123 (\$2,824,943 for 2005) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE D - DESIGNATED NET ASSETS - Continued

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

| | <u>2006</u> | <u>2005</u> |
|---------------------------|---------------------|---------------------|
| Capital acquisitions | \$ 2,971,150 | \$ 2,674,970 |
| Employee health insurance | <u>149,973</u> | <u>149,973</u> |
| | <u>\$ 3,121,123</u> | <u>\$ 2,824,943</u> |

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|---------------------|---------------------|
| Internally Designated Assets: | | |
| Cash and cash equivalents | \$ 570,571 | \$ 303,009 |
| Certificates of deposit | 2,534,541 | 2,510,496 |
| Interest receivable | <u>16,011</u> | <u>11,438</u> |
| | <u>\$ 3,121,123</u> | <u>\$ 2,824,943</u> |
| Restricted Assets: | | |
| Certificate of deposit | \$ 909,666 | \$ 875,000 |
| U.S. treasury obligations | 6,000 | 6,000 |
| Interest receivable | <u>7,435</u> | <u>--</u> |
| | <u>\$ 923,101</u> | <u>\$ 881,000</u> |

Interest rate risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006 and 2005, was as follows:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Receivable from: | | |
| Patients | \$ 1,712,918 | \$ 1,734,626 |
| Medicare | 2,388,654 | 2,402,971 |
| Medicaid | 476,074 | 502,260 |
| Blue Cross | 781,708 | 1,141,838 |
| Other commercial insurance carriers | 1,020,842 | 983,995 |
| Others | <u>137,743</u> | <u>157,614</u> |
| | 6,517,939 | 6,923,304 |
| Less allowances for doubtful accounts and contractual adjustments | <u>2,078,439</u> | <u>2,080,000</u> |
| | <u>\$ 4,439,500</u> | <u>\$ 4,843,304</u> |

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2006 and 2005 were as follows:

| <u>Cost</u> | <u>Balance 2005</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2006</u> |
|---|-------------------------|----------------------|-------------------|-------------------------|
| Land Improvements | \$ 868,139 | \$ 10,443 | \$ -- | \$ 878,582 |
| Buildings | 25,475,815 | 896,493 | -- | 26,372,308 |
| Major Movable Equipment | 11,641,069 | 1,160,630 | 8,450 | 12,793,249 |
| Clinic Equipment | <u>21,895</u> | <u>--</u> | <u>--</u> | <u>21,895</u> |
| | 38,006,918 | 2,067,566 | 8,450 | 40,066,034 |
| <u>Depreciation</u> | | | | |
| Land Improvements | 399,807 | 51,254 | -- | 451,061 |
| Buildings | 7,588,571 | 998,419 | -- | 8,586,990 |
| Major Movable Equipment | 7,659,313 | 1,234,874 | 8,450 | 8,885,737 |
| Clinic Equipment | <u>21,895</u> | <u>--</u> | <u>--</u> | <u>21,895</u> |
| Total Depreciation | <u>15,669,586</u> | <u>2,284,547</u> | <u>8,450</u> | <u>17,945,683</u> |
| Depreciable Capital Assets, Net | <u>\$ 22,337,332</u> | <u>\$ (216,981)</u> | <u>\$ --</u> | <u>\$ 22,120,351</u> |
| Construction in Progress | \$ 638,689 | \$ -- | \$ 602,899 | \$ 35,790 |
| Land | <u>313,476</u> | <u>--</u> | <u>--</u> | <u>313,476</u> |
| Total Non-depreciable Capital Assets | <u>\$ 952,165</u> | <u>\$ --</u> | <u>\$ 602,899</u> | <u>\$ 349,266</u> |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE G - CAPITAL ASSETS - Continued

| <u>Cost</u> | <u>Balance 2004</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2005</u> |
|---|-------------------------|-----------------------|------------------|-------------------------|
| Land Improvements | \$ 868,139 | \$ -- | \$ -- | \$ 868,139 |
| Buildings | 25,372,236 | 103,579 | -- | 25,475,815 |
| Major Movable Equipment | 11,167,797 | 473,272 | -- | 11,641,069 |
| Clinic Equipment | <u>21,895</u> | <u>--</u> | <u>--</u> | <u>21,895</u> |
| | 37,430,067 | 576,851 | -- | 38,006,918 |
| <u>Depreciation</u> | | | | |
| Land Improvements | 347,169 | 52,638 | -- | 399,807 |
| Buildings | 6,601,834 | 986,737 | -- | 7,588,571 |
| Major Movable Equipment | 6,519,163 | 1,140,150 | -- | 7,659,313 |
| Clinic Equipment | <u>21,895</u> | <u>--</u> | <u>--</u> | <u>21,895</u> |
| Total Depreciation | <u>13,490,061</u> | <u>2,179,525</u> | <u>--</u> | <u>15,669,586</u> |
| Depreciable Capital Assets, Net | <u>\$ 23,940,006</u> | <u>\$(1,602,674)</u> | <u>\$ --</u> | <u>\$ 22,337,332</u> |
| Construction in Progress | \$ 35,790 | \$ 602,899 | \$ -- | \$ 638,689 |
| Land | <u>313,476</u> | <u>--</u> | <u>--</u> | <u>313,476</u> |
| Total Non-depreciable Capital Assets | <u>\$ 349,266</u> | <u>\$ 602,899</u> | <u>\$ --</u> | <u>\$ 952,165</u> |

Total rental expense for operating leases in 2006 was approximately \$274,725 (\$233,369 in 2005).

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE H - LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for the years ended June 30, 2006 and 2005 follows:

| | <u>Balance 2005</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2006</u> | <u>Current Portion</u> |
|--|-------------------------|-------------------|---------------------|-------------------------|----------------------------|
| Long-Term Debt: | | | | | |
| Series 2001 bonds | \$ 8,240,000 | \$ -- | \$ 250,000 | \$ 7,990,000 | \$ 255,000 |
| Series 2003 notes | 1,515,000 | -- | 495,000 | 1,020,000 | 505,000 |
| Note payable, bank | 1,769,038 | -- | 444,175 | 1,324,863 | 465,378 |
| Note payable, bank | -- | 156,700 | 25,081 | 131,619 | 29,413 |
| Less unamortized discount and debt issue costs | <u>(600,652)</u> | <u>--</u> | <u>(67,668)</u> | <u>(532,984)</u> | <u>(68,010)</u> |
| Total Long-Term Debt | <u>\$ 10,923,386</u> | <u>\$ 156,700</u> | <u>\$ 1,146,588</u> | <u>\$ 9,933,498</u> | <u>\$ 1,186,781</u> |

| | <u>Balance 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2005</u> | <u>Current Portion</u> |
|--|-------------------------|------------------|---------------------|-------------------------|----------------------------|
| Long-Term Debt: | | | | | |
| Series 2001 bonds | \$ 8,480,000 | \$ -- | \$ 240,000 | \$ 8,240,000 | \$ 250,000 |
| Series 2003 notes | 2,000,000 | -- | 485,000 | 1,515,000 | 495,000 |
| Note payable, bank | 2,158,561 | -- | 389,523 | 1,769,038 | 444,174 |
| Less unamortized discount and debt issue costs | <u>(667,802)</u> | <u>--</u> | <u>(67,150)</u> | <u>(600,652)</u> | <u>(67,667)</u> |
| Total Long-Term Debt | <u>\$ 11,970,759</u> | <u>\$ --</u> | <u>\$ 1,047,373</u> | <u>\$ 10,923,386</u> | <u>\$ 1,121,507</u> |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE H - LONG-TERM DEBT - Continued

Series 2001 Bonds

The County of Mahaska, Iowa issued \$8,715,000 of Hospital Revenue Bonds, Series 2001, to early refund previously issued Series 1997 bonds, and finance a portion of the costs of a medical office building and renovation project of the Hospital. The bonds are payable from revenues of the Hospital. The bonds mature in annual installments starting August 1, 2003 through August 1, 2016, with varying interest rates ranging from 3.5% to 5.1%.

Series 2003 Notes

The County of Mahaska, Iowa issued \$2,480,000 of General Obligation Refunding Hospital notes, Series 2003, to early refund the Series 1993 notes. The notes are payable primarily from revenues of the Hospital. However, the notes are ultimately general obligations of the County, payable from its General Fund, and are secured by a pledge of the County's General Fund and the faith, credit, revenues and resources and all of the real and personal property of the County. The notes mature in annual installments starting June 1, 2004 through June 1, 2008, with varying interest rates ranging from 1.50% to 2.85%.

Note Payable, Bank

The Hospital entered into a five year promissory note payable with a bank dated March 9, 2004 for the purchase of equipment. The note is payable in monthly installments of \$42,646 including interest at a rate of 4.25%. The note matures in March, 2009 and is collateralized by revenues of the Hospital.

Note Payable, Bank

The Hospital entered into a five year promissory note payable with a bank dated July 9, 2005 for the purchase of equipment. The note is payable in monthly installments of \$3,041 including interest at a rate of 6%. The note matures in July, 2010 and is collateralized by revenues of the Hospital.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE H - LONG-TERM DEBT - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

| Year Ending June 30, | Long-Term Debt | |
|-------------------------|----------------------|---------------------|
| | Principal | Interest |
| 2007 | \$ 1,254,791 | \$ 481,500 |
| 2008 | 1,297,074 | 434,574 |
| 2009 | 681,792 | 389,861 |
| 2010 | 860,198 | 351,823 |
| 2011 | 867,627 | 310,799 |
| 2012-2016 | 4,490,000 | 887,595 |
| 2017 | <u>1,015,000</u> | <u>27,913</u> |
| | <u>\$ 10,466,482</u> | <u>\$ 2,884,065</u> |

Under the terms of the bond resolutions, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bond resolutions also place limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were approximately \$686,000, \$671,000, and \$605,000, respectively, equal to the required contributions for each year.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's personnel department is responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2006 was \$465,569 (\$500,383 at June 30, 2005). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE K - RELATED ORGANIZATIONS

Mahaska Hospital Foundation and Hospice of Mahaska County Endowment Foundation are separate not for profit organizations with independent boards of directors. During the year ended June 30, 2006, no contributions were received from these organizations (\$173,448 and \$121,306 for 2005), respectively.

NOTE L - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Notes to Financial Statements
June 30, 2006 and 2005

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

Construction in progress at June 30, 2006 of \$35,790 consists of a down payment on additional components for its information system. The estimated total cost is \$115,000, which will be financed through the use of existing Hospital internally designated funds.

Self-Funded Health Insurance

The Hospital has established a self-insured employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2006, the Hospital has accumulated funds in excess of actual claims paid of \$149,973 (\$149,973 at June 30, 2005). These funds, shown under internally designated assets are to be used to pay claims as they are filed in the future. The estimated amount of unpaid claims at June 30, 2006 is \$120,576 (\$135,098 at June 30, 2005), which is reported under current liabilities.

Equipment Purchase

The Hospital has committed to purchase equipment. The estimated cost of the equipment is \$205,000, which will be financed through the use of existing internally designated funds.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Budgetary Comparison Schedule
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, property and equipment purchases, depreciation, and net assets differently for financial statement and budget purposes.

| | Per Financial Statements | | |
|---------------------------|---------------------------------|-------------------------|---------------------------------|
| | Unrestricted Fund | Restricted Fund | Total |
| Amount raised by taxation | \$ 1,789,140 | \$ -- | \$ 1,789,140 |
| Other revenues | <u>24,756,973</u> 26,546,113 | <u>42,101</u> 42,101 | <u>24,799,074</u> 26,588,214 |
| Expenses | <u>25,601,265</u> | <u>--</u> | <u>25,601,265</u> |
| Net | 944,848 | 42,101 | 986,949 |
| Balance beginning of year | <u>20,978,062</u> | <u>881,000</u> | <u>21,859,062</u> |
| Balance end of year | <u>\$ 21,922,910</u> | <u>\$ 923,101</u> | <u>\$ 22,846,011</u> |

| | Total Per Financial Statements | Budget Adjustments | Budget Basis | Budget |
|---------------------------|--------------------------------------|---------------------------|---------------------------------|---------------------------------|
| Amount raised by taxation | \$ 1,789,140 | \$ -- | \$ 1,789,140 | \$ 1,674,549 |
| Other revenues | <u>24,799,074</u> 26,588,214 | <u>570,036</u> 570,036 | <u>25,369,110</u> 27,158,250 | <u>24,392,865</u> 26,067,414 |
| Expenses | <u>25,601,265</u> | <u>(222,930)</u> | <u>25,378,335</u> | <u>26,193,959</u> |
| Net | 986,949 | 792,966 | 1,779,915 | (126,545) |
| Balance beginning of year | <u>21,859,062</u> | <u>(13,593,290)</u> | <u>8,265,772</u> | <u>8,265,772</u> |
| Balance end of year | <u>\$ 22,846,011</u> | <u>\$(12,800,324)</u> | <u>\$ 10,045,687</u> | <u>\$ 8,139,227</u> |

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Patient Receivables
June 30,

Analysis of Aging:

| <u>Days Since Discharge</u> | <u>2006</u> | | <u>2005</u> | |
|---------------------------------------|---------------------|-------------------------|---------------------|-------------------------|
| | <u>Amount</u> | <u>Percent to Total</u> | <u>Amount</u> | <u>Percent to Total</u> |
| Hospital | | | | |
| 0 - 30 | \$ 3,226,458 | 49.5% | \$ 3,083,943 | 44.6% |
| 31 - 60 | 800,498 | 12.3 | 969,197 | 14.0 |
| 61 - 90 | 443,987 | 6.8 | 511,077 | 7.4 |
| 91 - 180 | 594,610 | 9.1 | 750,826 | 10.8 |
| Over 181 | <u>689,802</u> | <u>10.6</u> | <u>748,105</u> | <u>10.8</u> |
| | 5,755,355 | 88.3 | 6,063,148 | 87.6 |
| Community Health and Hospice | 268,416 | 4.1 | 372,004 | 5.4 |
| Physician clinic | <u>494,168</u> | <u>7.6</u> | <u>488,152</u> | <u>7.0</u> |
| | 6,517,939 | <u>100.0%</u> | 6,923,304 | <u>100.0%</u> |
| Less: | | | | |
| Allowance for doubtful accounts | 515,439 | | 548,000 | |
| Allowance for contractual adjustments | <u>1,563,000</u> | | <u>1,532,000</u> | |
| | <u>\$ 4,439,500</u> | | <u>\$ 4,843,304</u> | |

Allowance for Doubtful Accounts:

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>2006</u> | <u>2005</u> |
| Balance, beginning | \$ 548,000 | \$ 504,000 |
| Provision for bad debts | 1,193,458 | 1,153,286 |
| Recoveries of accounts previously written off | <u>103,977</u> | <u>365,626</u> |
| | 1,845,435 | 2,022,912 |
| Accounts written off | <u>1,329,996</u> | <u>1,474,912</u> |
| Balance, ending | <u>\$ 515,439</u> | <u>\$ 548,000</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Inventory/Prepaid Expense
June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------|-------------------|-------------------|
| <u>Inventory</u> | | |
| Store room | \$ 105,902 | \$ 119,680 |
| Dietary | 8,124 | 7,853 |
| Pharmacy | 136,802 | 100,641 |
| Laboratory | 83,114 | 74,139 |
| Operating room | 592,751 | 565,661 |
| Radiology | <u>11,077</u> | <u>10,684</u> |
| | <u>\$ 937,770</u> | <u>\$ 878,658</u> |
| <u>Prepaid Expense</u> | | |
| Insurance | \$ 48,405 | \$ 40,857 |
| Dues and contracts | <u>80,642</u> | <u>85,523</u> |
| | <u>\$ 129,047</u> | <u>\$ 126,380</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Patient Service Revenue
Year ended June 30,

| | 2006 | |
|--|----------------------|----------------------|
| | Inpatient | Outpatient |
| Daily Patient Services: | | |
| Medical and surgical | \$ 2,479,095 | \$ 801,602 |
| Coronary care | 205,375 | -- |
| Nursery | 277,200 | -- |
| Obstetrics | 400,192 | 25,919 |
| Swing bed | -- | -- |
| Vision Quest | 1,756,270 | -- |
| | <u>5,118,132</u> | <u>827,521</u> |
| Other Nursing Services: | | |
| Operating and recovery rooms | 1,170,335 | 2,777,686 |
| Delivery and labor rooms | 261,419 | 69,218 |
| Central services and supply | 1,035,103 | 543,365 |
| Wound/ostomy care | 10,348 | 25,468 |
| Emergency services | 233,821 | 2,166,788 |
| Cardiac rehabilitation and stress test | 35,226 | 410,534 |
| | <u>2,746,252</u> | <u>5,993,059</u> |
| Other Professional Services: | | |
| Emergency room physicians | 100,322 | 1,380,701 |
| Laboratory | 746,259 | 1,598,991 |
| Electrocardiology | 152 | 25,507 |
| Electroencephalography | 3,969 | 31,185 |
| Radiology | 107,635 | 987,242 |
| Ultrasound | 35,230 | 276,579 |
| Nuclear scanning | 3,013 | 43,730 |
| MRI scanning | 126,534 | 1,926,308 |
| CT scanning | 343,287 | 2,435,184 |
| Outsourced services | 94,187 | 489,174 |
| Pharmacy | 1,716,051 | 1,244,128 |
| Oncology | 52,864 | 298,299 |
| Anesthesiology | 210,202 | 427,805 |
| Respiratory therapy | 722,254 | 548,648 |
| Physical therapy | 86,600 | 982,979 |
| Occupational therapy | 64,440 | 242,552 |
| Speech therapy | 10,653 | 106,113 |
| Massage therapy | -- | 42,245 |
| Ambulance | 234,559 | 984,699 |
| Community health | -- | 1,427,394 |
| Hospice | -- | 637,324 |
| Occupational health | -- | 193,023 |
| New Directions | 27,840 | 916,727 |
| Physician clinic | -- | 1,898,317 |
| | <u>4,686,051</u> | <u>19,144,854</u> |
| | <u>\$ 12,550,435</u> | <u>\$ 25,965,434</u> |

See Independent Auditor's Report.

| 2006 | | 2005 |
|---------------------|----------------------|----------------------|
| Swing Bed | Total | Total |
| \$ -- | \$ 3,280,697 | \$ 3,510,325 |
| -- | 205,375 | 217,238 |
| -- | 277,200 | 277,750 |
| -- | 426,111 | 397,994 |
| 590,292 | 590,292 | 879,565 |
| -- | 1,756,270 | 1,328,300 |
| 590,292 | 6,535,945 | 6,611,172 |
| 2,998 | 3,951,019 | 6,507,618 |
| -- | 330,637 | 311,592 |
| 7,027 | 1,585,495 | 165,528 |
| 3,101 | 38,917 | 43,683 |
| -- | 2,400,609 | 2,199,279 |
| -- | 445,760 | 391,880 |
| 13,126 | 8,752,437 | 9,619,580 |
| -- | 1,481,023 | 899,373 |
| 57,554 | 2,402,804 | 2,551,304 |
| -- | 25,659 | 21,733 |
| -- | 35,154 | 24,750 |
| 8,249 | 1,103,126 | 988,169 |
| 1,479 | 313,288 | 241,051 |
| 1,148 | 47,891 | 63,720 |
| 8,521 | 2,061,363 | 1,787,819 |
| -- | 2,778,471 | 2,371,626 |
| 9,608 | 592,969 | 309,441 |
| 226,040 | 3,186,219 | 2,945,279 |
| -- | 351,163 | 714,934 |
| 275 | 638,282 | 742,339 |
| 180,830 | 1,451,732 | 1,476,450 |
| 104,970 | 1,174,549 | 1,313,850 |
| 82,433 | 389,425 | 342,350 |
| 7,417 | 124,183 | 105,686 |
| -- | 42,245 | -- |
| 4,846 | 1,224,104 | 1,040,000 |
| -- | 1,427,394 | 1,505,670 |
| -- | 637,324 | 556,721 |
| -- | 193,023 | 203,733 |
| -- | 944,567 | 870,264 |
| -- | 1,898,317 | 2,003,783 |
| 693,370 | 24,524,275 | 23,080,045 |
| <u>\$ 1,296,788</u> | <u>\$ 39,812,657</u> | <u>\$ 39,310,797</u> |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Revenue and Related Adjustments
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|------------------------------------|----------------------|----------------------|
| <u>Net Patient Service Revenue</u> | | |
| Patient service revenue | \$ 39,812,657 | \$ 39,310,797 |
| Contractual adjustments | (14,309,300) | (14,813,526) |
| Provision for bad debts | (1,193,458) | (1,153,286) |
| | <u>\$ 24,309,899</u> | <u>\$ 23,343,985</u> |
| <u>Other Revenue</u> | | |
| Cafeteria | \$ 93,094 | \$ 98,332 |
| Catering | 35,843 | 34,692 |
| Medical record transcripts | 717 | 1,265 |
| Non-patient supplies | 336 | 1,419 |
| Outpatient clinics | 61,569 | 64,096 |
| Dietary services | 35,782 | 27,164 |
| Medical Alert | 1,410 | 24,938 |
| Miscellaneous | <u>4,450</u> | <u>18,817</u> |
| | <u>\$ 233,201</u> | <u>\$ 270,723</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Nursing Service Expenses
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|----------------|------------------|
| Administrative: | | |
| Salaries and wages | \$ 260,172 | \$ 406,207 |
| Employee benefits | 2,188 | 69,847 |
| Supplies and other expense | <u>25,479</u> | <u>21,739</u> |
| | 287,839 | 497,793 |
| Medical and Surgical: | | |
| Salaries and wages | 1,492,605 | 1,432,045 |
| Employee benefits | 224,660 | 198,912 |
| Supplies and other expense | <u>158,855</u> | <u>147,164</u> |
| | 1,876,120 | 1,778,121 |
| Obstetrics: | | |
| Salaries and wages | 267,041 | 199,435 |
| Employee benefits | 39,677 | 30,573 |
| Supplies and other expense | <u>59,627</u> | <u>58,803</u> |
| | 366,345 | 288,811 |
| Nursery: | | |
| Salaries and wages | 107,009 | 95,215 |
| Employee benefits | 12,538 | 14,712 |
| Supplies and other expense | <u>2,376</u> | <u>3,369</u> |
| | 121,923 | 113,296 |
| Vision Quest: | | |
| Salaries and wages | 593,462 | 472,478 |
| Employee benefits | 81,946 | 63,001 |
| Supplies and other expense | <u>184,672</u> | <u>309,901</u> |
| | 860,080 | 845,380 |
| Operating and Recovery Rooms: | | |
| Salaries and wages | 624,373 | 643,430 |
| Employee benefits | 71,137 | 75,399 |
| Supplies and other expense | <u>713,661</u> | <u>1,156,015</u> |
| | 1,409,171 | 1,874,844 |
| Delivery and Labor Rooms: | | |
| Salaries and wages | 81,145 | 98,277 |
| Employee benefits | 9,588 | 14,331 |
| Supplies and other expense | <u>141</u> | <u>731</u> |
| | 90,874 | 113,339 |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Nursing Service Expenses - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|------------------------------|---------------------|---------------------|
| Central Services and Supply: | | |
| Supplies and other expense | \$ 385,210 | \$ 78,291 |
| Wound/Ostomy Care: | | |
| Salaries and wages | 18,498 | 18,417 |
| Employee benefits | 2,509 | 2,281 |
| Supplies and other expense | <u>2,066</u> | <u>1,192</u> |
| | 23,073 | 21,890 |
| Emergency Services: | | |
| Salaries and wages | 316,163 | 273,721 |
| Employee benefits | 40,472 | 37,296 |
| Supplies and other expense | <u>74,979</u> | <u>83,724</u> |
| | 431,614 | 394,741 |
| Cardiac Rehabilitation: | | |
| Salaries and wages | 40,648 | 35,985 |
| Employee benefits | 6,847 | 3,404 |
| Supplies and other expense | <u>42,266</u> | <u>43,418</u> |
| | <u>89,761</u> | <u>82,807</u> |
| | <u>\$ 5,942,010</u> | <u>\$ 6,089,313</u> |

SUMMARY

| | | |
|----------------------------|---------------------|---------------------|
| Salaries and wages | \$ 3,801,116 | \$ 3,675,210 |
| Employee benefits | 491,562 | 509,756 |
| Supplies and other expense | <u>1,649,332</u> | <u>1,904,347</u> |
| | <u>\$ 5,942,010</u> | <u>\$ 6,089,313</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|---|----------------|----------------|
| Emergency Room Physicians: | | |
| Salaries and wages | \$ 823,912 | \$ 752,095 |
| Employee benefits | 18,248 | 122,681 |
| Professional fees | 3,857 | 39,739 |
| Supplies and other expense | <u>10,974</u> | <u>--</u> |
| | 856,991 | 914,515 |
| Laboratory: | | |
| Salaries and wages | 329,290 | 307,560 |
| Employee benefits | 44,347 | 40,373 |
| Professional fees | 194,353 | 186,220 |
| Supplies and other expense | <u>293,025</u> | <u>324,118</u> |
| | 861,015 | 858,271 |
| Electroencephalography and Electrocardiology: | | |
| Salaries and wages | 349 | 197 |
| Employee benefits | 25 | 15 |
| Purchased services | <u>--</u> | <u>2,976</u> |
| | 374 | 3,188 |
| Oncology: | | |
| Salaries and wages | 89,053 | 84,091 |
| Employee benefits | 9,742 | 12,953 |
| Supplies and other expense | <u>63,318</u> | <u>235,189</u> |
| | 162,113 | 332,233 |
| Radiology and Ultrasound: | | |
| Salaries and wages | 406,871 | 387,238 |
| Employee benefits | 54,070 | 54,383 |
| Supplies and other expense | <u>504,610</u> | <u>366,588</u> |
| | 965,551 | 808,209 |
| Nuclear Scanning: | | |
| Purchased services | 32,099 | 51,523 |
| Outsourced Services: | | |
| Purchased services | 256,126 | 237,794 |
| Supplies and other expense | <u>61</u> | <u>180</u> |
| | 256,187 | 237,974 |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------|----------------|----------------|
| Pharmacy: | | |
| Salaries and wages | \$ 249,632 | \$ 231,998 |
| Employee benefits | 30,149 | 34,241 |
| Drugs and other expense | <u>696,644</u> | <u>637,603</u> |
| | 976,425 | 903,842 |
| Anesthesiology: | | |
| Supplies and other expense | 47,012 | 62,223 |
| Respiratory Therapy: | | |
| Salaries and wages | 271,245 | 240,178 |
| Employee benefits | 34,369 | 31,520 |
| Professional fees | 9,925 | 13,084 |
| Supplies and other expense | <u>50,961</u> | <u>52,518</u> |
| | 366,500 | 337,300 |
| Physical Therapy: | | |
| Professional fees | 521,264 | 631,164 |
| Supplies and other expense | <u>15,806</u> | <u>22,273</u> |
| | 537,070 | 653,437 |
| Speech Therapy: | | |
| Salaries and wages | 49,609 | 47,081 |
| Employee benefits | 6,227 | 6,055 |
| Professional fees | 160 | -- |
| Supplies and other expense | <u>3,632</u> | <u>4,914</u> |
| | 59,628 | 58,050 |
| Occupational Therapy: | | |
| Professional fees | 172,674 | 162,377 |
| Supplies and other expense | <u>1,386</u> | <u>2,578</u> |
| | 174,060 | 164,955 |
| Ambulance: | | |
| Salaries and wages | 447,292 | 420,486 |
| Employee benefits | 58,824 | 57,804 |
| Purchased services | 1,398 | 257 |
| Supplies and other expense | <u>36,512</u> | <u>30,014</u> |
| | 544,026 | 508,561 |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------|----------------|----------------|
| Community Health: | | |
| Salaries and wages | \$ 785,095 | \$ 731,127 |
| Employee benefits | 108,443 | 102,808 |
| Purchased services | 143,449 | 126,036 |
| Supplies and other expense | <u>113,016</u> | <u>114,104</u> |
| | 1,150,003 | 1,074,075 |
| Hospice: | | |
| Salaries and wages | 427,811 | 410,860 |
| Employee benefits | 50,210 | 51,025 |
| Supplies and other expense | <u>162,753</u> | <u>134,253</u> |
| | 640,774 | 596,138 |
| Medical Records: | | |
| Salaries and wages | 264,463 | 243,934 |
| Employee benefits | 35,388 | 29,950 |
| Supplies and other expense | <u>60,868</u> | <u>94,341</u> |
| | 360,719 | 368,225 |
| Physician Clinic: | | |
| Salaries and wages | 1,899,438 | 2,038,805 |
| Employee benefits | 159,512 | 229,984 |
| Supplies and other expense | <u>194,530</u> | <u>141,939</u> |
| | 2,253,480 | 2,410,728 |
| Outpatient Clinics: | | |
| Salaries and wages | 1,144 | 2,703 |
| Employee benefits | 84 | 197 |
| Purchased services | 500 | 190 |
| Supplies and other expense | <u>2,910</u> | <u>1,833</u> |
| | 4,638 | 4,923 |
| Dietician Services: | | |
| Salaries and wages | 78,380 | 52,341 |
| Employee benefits | 10,023 | 8,842 |
| Supplies and other expense | <u>5,680</u> | <u>6,046</u> |
| | 94,083 | 67,229 |
| New Directions: | | |
| Salaries and wages | 673,896 | 765,801 |
| Employee benefits | 89,176 | 107,890 |
| Purchased services | 40,629 | 16,761 |
| Supplies and other expense | <u>58,274</u> | <u>46,727</u> |
| | 861,975 | 937,179 |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------|----------------------|----------------------|
| Occupational Health: | | |
| Salaries and wages | \$ 113,648 | \$ 115,378 |
| Employee benefits | 18,211 | 10,523 |
| Purchased services | 6,295 | 56,429 |
| Supplies and other expense | <u>22,563</u> | <u>17,801</u> |
| | <u>160,717</u> | <u>200,131</u> |
| | <u>\$ 11,365,440</u> | <u>\$ 11,552,909</u> |

SUMMARY

| | | |
|----------------------------|----------------------|----------------------|
| Salaries and wages | \$ 6,911,128 | \$ 6,831,873 |
| Employee benefits | 727,048 | 901,244 |
| Professional fees | 902,233 | 1,032,584 |
| Supplies and other expense | <u>2,825,031</u> | <u>2,787,208</u> |
| | <u>\$ 11,365,440</u> | <u>\$ 11,552,909</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
General Service Expenses
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------|---------------------|---------------------|
| Dietary: | | |
| Salaries and wages | \$ 231,592 | \$ 227,875 |
| Employee benefits | 32,076 | 29,537 |
| Food | 116,624 | 120,881 |
| Supplies and other expense | <u>26,732</u> | <u>26,681</u> |
| | 407,024 | 404,974 |
| Operation of Plant: | | |
| Salaries and wages | 234,200 | 190,138 |
| Employee benefits | 33,884 | 27,171 |
| Utilities | 450,719 | 383,415 |
| Supplies and other expense | <u>350,566</u> | <u>244,110</u> |
| | 1,069,369 | 844,834 |
| Environmental Services: | | |
| Salaries and wages | 298,747 | 301,991 |
| Employee benefits | 33,827 | 36,935 |
| Supplies and other expense | <u>43,377</u> | <u>39,271</u> |
| | 375,951 | 378,197 |
| Laundry and Linen: | | |
| Salaries and wages | 112,559 | 105,045 |
| Employee benefits | 15,817 | 15,454 |
| Supplies and other expense | <u>14,869</u> | <u>19,129</u> |
| | <u>143,245</u> | <u>139,628</u> |
| | <u>\$ 1,995,589</u> | <u>\$ 1,767,633</u> |

SUMMARY

| | | |
|----------------------------|---------------------|---------------------|
| Salaries and wages | \$ 877,098 | \$ 825,049 |
| Employee benefits | 115,604 | 109,097 |
| Supplies and other expense | <u>1,002,887</u> | <u>833,487</u> |
| | <u>\$ 1,995,589</u> | <u>\$ 1,767,633</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Fiscal and Administrative Service Expenses
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|----------------|----------------|
| Administrative: | | |
| Salaries and wages | \$ 841,175 | \$ 822,968 |
| Employee benefits | 113,103 | 113,036 |
| Professional fees | 96,252 | 31,749 |
| Supplies and other expense | 360,083 | 274,237 |
| Purchased services | 59,363 | 87,152 |
| Travel and education | 19,067 | 28,821 |
| Telephone | 5,061 | 2,774 |
| Dues, subscriptions and licenses | 42,225 | 50,140 |
| Collection fees | <u>106,096</u> | <u>92,050</u> |
| | 1,642,425 | 1,502,927 |
| Information Systems: | | |
| Salaries and wages | 114,677 | 123,049 |
| Employee benefits | 14,627 | 19,199 |
| Purchased services | 7,691 | 6,216 |
| Supplies and other expense | <u>93,039</u> | <u>102,378</u> |
| | 230,034 | 250,842 |
| Purchasing: | | |
| Salaries and wages | 100,610 | 94,610 |
| Employee benefits | 14,315 | 14,747 |
| Supplies and other expense | <u>9,229</u> | <u>3,964</u> |
| | 124,154 | 113,321 |
| Public Relations: | | |
| Salaries and wages | 77,642 | 76,181 |
| Employee benefits | 7,573 | 12,557 |
| Supplies and other expense | <u>65,904</u> | <u>80,711</u> |
| | 151,119 | 169,449 |
| Human Resources: | | |
| Salaries and wages | 77,337 | 70,674 |
| Employee benefits | 9,407 | 10,009 |
| Purchased services | 6,434 | 8,413 |
| Supplies and other expense | <u>28,307</u> | <u>35,760</u> |
| | 121,485 | 124,856 |

(continued next page)

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|---------------------------------|---------------------|---------------------|
| Quality Management: | | |
| Salaries and wages | \$ 36,016 | \$ 37,706 |
| Employee benefits | 6,129 | 3,814 |
| Supplies and other expense | <u>18,887</u> | <u>6,415</u> |
| | 61,032 | 47,935 |
| Employee Welfare: | | |
| Unemployment tax | 16,747 | 4,124 |
| Group health and life insurance | 1,140,632 | 1,015,491 |
| Workers' compensation insurance | <u>159,291</u> | <u>144,207</u> |
| | 1,316,670 | 1,163,822 |
| Insurance: | | |
| Insurance and bonding expense | <u>349,710</u> | <u>322,764</u> |
| | <u>\$ 3,996,629</u> | <u>\$ 3,695,916</u> |

SUMMARY

| | | |
|----------------------------|---------------------|---------------------|
| Salaries and wages | \$ 1,247,457 | \$ 1,225,188 |
| Employee benefits | 1,481,824 | 1,337,184 |
| Professional fees | 96,252 | 31,749 |
| Supplies and other expense | <u>1,171,096</u> | <u>1,101,795</u> |
| | <u>\$ 3,996,629</u> | <u>\$ 3,695,916</u> |

SUMMARY OF EXPENSES

| | | |
|----------------------------|----------------------|----------------------|
| Salaries and wages | \$ 12,836,799 | \$ 12,557,320 |
| Employee benefits | 2,816,038 | 2,857,281 |
| Professional fees | 998,485 | 1,064,333 |
| Supplies and other expense | <u>6,648,346</u> | <u>6,626,837</u> |
| | <u>\$ 23,299,668</u> | <u>\$ 23,105,771</u> |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Statistics
Year ended June 30,

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Acute Care: | | | | | |
| Admissions | 1,273 | 1,417 | 1,255 | 1,077 | 1,053 |
| Discharges | 1,271 | 1,421 | 1,260 | 1,076 | 1,061 |
| Patient days | 3,847 | 4,589 | 4,360 | 3,502 | 3,321 |
| Average length of stay | 3.03 | 3.23 | 3.46 | 3.25 | 3.13 |
| Average occupied beds | 10.5 | 12.6 | 11.9 | 9.6 | 9.1 |
| Vision Quest: | | | | | |
| Admissions | 164 | 143 | 114 | -- | -- |
| Discharges | 163 | 142 | 110 | -- | -- |
| Patient days | 1,834 | 1,436 | 1,279 | -- | -- |
| Average length of stay | 11.25 | 10.11 | 11.63 | -- | -- |
| Average occupied beds | 5.0 | 3.9 | 3.5 | -- | -- |
| Swing Bed: | | | | | |
| Admissions | 241 | 321 | 242 | 183 | 284 |
| Discharges | 244 | 318 | 241 | 181 | 282 |
| SNF days | 1,375 | 2,065 | 1,463 | 1,351 | 1,987 |
| ICF days | 4 | 50 | 29 | 62 | 141 |
| Combined Average Occupied Beds | 19.3 | 22.3 | 19.5 | 13.5 | 14.9 |
| Nursery Days | 495 | 505 | 540 | 423 | 398 |
| Home Health Visits | 19,783 | 20,326 | 20,235 | 18,235 | 16,886 |
| Outpatient Occasions of Service | 90,368 | 89,488 | 78,536 | 72,142 | 69,497 |

See Independent Auditor's Report.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Balance Sheets
June 30,

| | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 2,476,109 | \$ 1,783,416 |
| Receivables | 4,516,224 | 5,061,201 |
| Inventory | 937,770 | 878,658 |
| Prepaid expense | 129,047 | 126,380 |
| Estimated third-party payor settlements | 88,000 | 17,000 |
| Succeeding year property tax receivable | 1,750,000 | 1,675,000 |
| Internally designated assets | <u>1,453,501</u> | <u>1,429,321</u> |
| Total current assets | 11,350,651 | 10,970,976 |
| Other Assets: | | |
| Designated and restricted assets, net | 2,590,723 | 2,276,622 |
| Capital assets, net | 22,469,617 | 23,289,497 |
| Other assets | <u>87,384</u> | <u>214,099</u> |
| Total other assets | <u>25,147,724</u> | <u>25,780,218</u> |
| | <u>\$ 36,498,375</u> | <u>\$ 36,751,194</u> |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 1,186,781 | \$ 1,121,507 |
| Accounts payable | 704,343 | 634,006 |
| Accrued expenses | 1,264,523 | 1,659,740 |
| Due to restricted assets | -- | -- |
| Deferred revenue for succeeding year property tax receivable | <u>1,750,000</u> | <u>1,675,000</u> |
| Total current liabilities | 4,905,647 | 5,090,253 |
| Long-Term Debt, Net | 8,746,717 | 9,801,879 |
| Net Assets | <u>22,846,011</u> | <u>21,859,062</u> |
| | <u>\$ 36,498,375</u> | <u>\$ 36,751,194</u> |

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|----------------------|----------------------|----------------------|
| \$ 1,023,405 | \$ 558,619 | \$ 595,893 |
| 5,208,426 | 3,401,067 | 3,519,833 |
| 963,833 | 509,144 | 397,028 |
| 36,058 | 35,486 | 31,725 |
| 231,000 | 27,000 | 290,000 |
| 1,599,000 | 1,562,000 | 1,542,000 |
| <u>1,436,637</u> | <u>1,495,466</u> | <u>2,031,237</u> |
| 10,498,359 | 7,588,782 | 8,407,716 |
| 2,134,769 | 6,917,672 | 12,377,856 |
| 24,289,272 | 21,122,943 | 16,113,581 |
| <u>300,099</u> | <u>194,491</u> | <u>321,976</u> |
| 26,724,140 | 28,235,106 | 28,813,413 |
| <u>\$ 37,222,499</u> | <u>\$ 35,823,888</u> | <u>\$ 37,221,129</u> |
| \$ 1,083,702 | \$ 1,063,108 | \$ 354,512 |
| 838,743 | 1,089,729 | 2,482,414 |
| 1,490,939 | 1,225,488 | 1,016,279 |
| -- | 8,116 | 8,116 |
| <u>1,599,000</u> | <u>1,562,000</u> | <u>1,542,000</u> |
| 5,012,384 | 4,948,441 | 5,403,321 |
| 10,887,057 | 9,812,198 | 10,871,224 |
| <u>21,323,058</u> | <u>21,063,249</u> | <u>20,946,584</u> |
| <u>\$ 37,222,499</u> | <u>\$ 35,823,888</u> | <u>\$ 37,221,129</u> |

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Comparative Statements of Revenues and Expenses
Year ended June 30,

| | <u>2006</u> | <u>2005</u> |
|--|--------------------------|--------------------------|
| Patient Service Revenue | \$ 39,812,657 | \$ 39,310,797 |
| Adjustments to Patient Service Revenue | <u>(15,502,758)</u> | <u>(15,966,812)</u> |
| Net Patient Service Revenue | 24,309,899 | 23,343,985 |
| Other Revenue | <u>233,201</u> | <u>270,723</u> |
| Total Revenue | 24,543,100 | 23,614,708 |
| Expenses | <u>25,601,265</u> | <u>25,301,829</u> |
| Operating Loss | (1,058,165) | (1,687,121) |
| Non-Operating Income | <u>2,045,114</u> | <u>2,223,125</u> |
| Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item | 986,949 | 536,004 |
| Unusual Item | <u>--</u> | <u>--</u> |
| Excess of Revenues Over Expenses | <u><u>\$ 986,949</u></u> | <u><u>\$ 536,004</u></u> |

See Independent Auditor's Report.

| <u>2004</u> | <u>2003</u> | <u>2002</u> |
|----------------------|---------------------|---------------------|
| \$ 34,656,187 | \$ 24,851,237 | \$ 22,125,218 |
| <u>(13,333,234)</u> | <u>(8,792,906)</u> | <u>(7,102,790)</u> |
| 21,322,953 | 16,058,331 | 15,022,428 |
| <u>287,386</u> | <u>251,589</u> | <u>307,523</u> |
| 21,610,339 | 16,309,920 | 15,329,951 |
| <u>23,137,702</u> | <u>18,399,286</u> | <u>15,863,181</u> |
| (1,527,363) | (2,089,366) | (533,230) |
| <u>1,787,172</u> | <u>1,976,139</u> | <u>2,197,362</u> |
| 259,809 | (113,227) | 1,664,132 |
| <u>--</u> | <u>229,892</u> | <u>--</u> |
| <u>\$ 259,809</u> | <u>\$ 116,665</u> | <u>\$ 1,664,132</u> |

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)
Oskaloosa, Iowa

We have audited the accompanying financial statements of Mahaska County Hospital (d/b/a Mahaska Health Partnership) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska County Hospital's (d/b/a Mahaska Health Partnership) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mahaska County Hospital's (d/b/a Mahaska Health Partnership) ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

To the Board of Trustees
Mahaska County Hospital
(d/b/a Mahaska Health Partnership)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahaska County Hospital's (d/b/a Mahaska Health Partnership) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Mahaska County Hospital (d/b/a Mahaska Health Partnership) and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewold, Bell, Kuhn + Co. P.C.

Atlantic, Iowa
October 12, 2006

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

06-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2006 did not exceed amounts budgeted.

06-II-B Questionable Expenditures: During the audit, we noted a certain expenditure that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|----------------|------------------------------|---------------|
| The Peppertree | Employee recognition banquet | \$ 2,236 |

Recommendation: We recommend that the Board continue to document in the Board minutes the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

MAHASKA COUNTY HOSPITAL
(d/b/a MAHASKA HEALTH PARTNERSHIP)
Schedule of Findings - Continued
Year ended June 30, 2006

PART II - REQUIRED STATUTORY REPORTING - Continued

06-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

06-II-D Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted.

06-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

06-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *